

NORTH FORK SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF UTAH COUNTY)

FINANCIAL STATEMENTS

DECEMBER 31, 2005

NORTH FORK SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF UTAH COUNTY)
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INDEPENDENT AUDITOR'S REPORT

Administrative Control Board
North Fork Special Service District
Provo, UT 84604

May 30, 2006

We have audited the accompanying financial statements of the business-type activities of North Fork Special Service District - a component unit of Utah County as of and for the year ended December 31, 2005, which comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of North Fork Special Service District management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of North Fork Special Service District as of December 31, 2005 and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2006, on our consideration of North Fork Special Service District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 2 through 5, is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of the inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

GILBERT & STEWART
Certified Public Accountants

Management's Discussion and Analysis

Our Discussion and Analysis of North Fork Special Service District's financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2005.

Financial Highlights

- The District's net assets increased \$84,960 over the prior year as a result of this year's operations. This is an increase of 4.8%.
- The District's business-type activity, operating revenues and expenses were \$477,780 and \$546,546 respectively.
- The District's business-type activity total revenues and expenses were \$647,062 and \$562,102 respectively.

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and Statement of Cash Flows provide information about the activity of the District and present a longer-term view of the District's finances. Since the District is operated as an enterprise fund, there are no fund statements presented because all operations are reported using the accrual method of accounting.

Reporting the District as a Whole

The Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets report information about the District as a whole and about its activities in a way that helps determine if the District is better or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for regardless of when cash is received or paid.

These two statements report the District's net assets and the changes in them. Net assets equal the difference between assets and liabilities. This is one way to measure the District's financial position. Increases or decreases in the District's net assets are one indicator of whether the financial position of the District is improving or deteriorating. You will need to consider other non-financial factors, such as the condition of the District's fire and water facilities and culinary water distribution system to assess the overall health of the District.

In the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets, the District shows all of its activities in one fund.

- Business-type activities – The District charges fees to customers for culinary water service, garbage service, sewer service, ambulance service, and fire protection. These fees cover all or most of the cost of providing the related services to the District.

Reporting the District's Significant Fund

The District has only one fund, which accounts for the activity of the District. The entity-wide financial statements provide detailed information about the operations of the District as a whole. The District's only fund is operated as an enterprise fund. Enterprise funds are reported using the accrual accounting method, which records revenues when they are earned and expenses when they are incurred. There are no governmental type funds operated by the District.

The District as a Trustee

The District does not hold any funds or property in a trustee capacity.

The District as a Whole

The net assets of the District changed by \$84,960 from a year ago, increasing from \$1,782,909 to \$1,867,869. The following analysis focuses on the net assets and changes in net assets of the District's business activity.

Net Assets

	December 31 2005	December 31 2004
Current Assets	\$ 478,729	\$ 532,078
Non Current Assets		
Capital Assets	1,470,298	1,517,785
Other Assets	486,026	109,559
Total Assets	<u>2,435,053</u>	<u>2,159,422</u>
Current Liabilities	326,611	92,939
Noncurrent Liabilities	240,573	283,574
Total Liabilities	<u>567,184</u>	<u>376,513</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	934,086	1,165,906
Restricted:		
Debt Service	45,800	45,800
Unrestricted	887,983	571,203
Total Net Assets	<u>\$ 1,867,869</u>	<u>\$ 1,782,909</u>

Net Assets of the District are \$1,867,869. *Unrestricted* net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – are \$887,983. These net assets are used to finance the continuing operations of providing our services to citizens within the District's boundaries.

Revenues, Expenses, and Changes in Net Assets

	December 31, 2005	December 31, 2004
Revenues		
Charges for Services	\$ 477,780	\$ 420,465
Other Revenues	169,282	165,438
Total Revenues	<u>647,062</u>	<u>585,903</u>
Expenses		
Operating Expenses	546,546	502,356
Other Expenses	15,556	18,434
Total Expenses	<u>562,102</u>	<u>520,790</u>
Change in Net Assets	84,960	65,113
Net Assets - Beginning	<u>1,782,909</u>	<u>1,717,796</u>
Total Net Assets - Ending	<u>\$ 1,867,869</u>	<u>\$ 1,782,909</u>

Budgetary Highlights

The board has made no revisions to the District's budget over the course of the year.

Since the District operates as an enterprise fund, it is only required to comply with the budget on an entity wide basis. Without any budget adjustments, the actual revenues exceeded budgeted amount by \$86,462. Actual charges to expenses were \$11,502 in excess of the budgeted amount.

Capital Asset and Debt Administration

At the end of 2005, the District had net capital assets of \$1,470,298 in a broad range of capital assets including land, fire house, fire and office equipment, and water and wastewater treatment plants and lines.

Capital Assets

	<u>Business-type Activities</u>	
	2005	2004
Equipment	\$ 689,918	\$ 677,274
Water System	1,275,042	1,264,167
Buildings and Structures	239,915	239,915
Land	95,583	95,583
Construction in Progress		
Wastewater System	170,338	145,300
Total Capital Assets	<u>2,470,796</u>	<u>2,422,239</u>
Accumulated Depreciation	<u>(1,000,498)</u>	<u>(904,454)</u>
Net Capital Assets	<u>\$ 1,470,298</u>	<u>\$ 1,517,785</u>

Debt

At year-end, the District had \$536,212 in bonds and notes outstanding.

Outstanding Debt at Year-end

	Business-type Activities			December 31, 2005
	December 31, 2004	Issuances	Retirements	
Bonds:				
1996 Water Revenue Bonds,	\$206,000	\$ -	\$ 41,000	\$165,000
Notes:				
Personal Loan from Related Party	-	35,000	35,000	-
2005 State of Utah Long Term Note Advance	-	247,500	-	247,500
1998 Fire Truck Note Payable	22,166	-	22,166	-
1981 GMAC Commercial				
Mortgage	123,712	-	-	123,712
Total Long Term Debt	\$351,878	\$282,500	\$ 98,166	\$536,212

Contacting the District's Financial Management

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions or need additional financial information, contact the District Office at RR 3 Box B1, Provo, Utah 84604.

NORTH FORK SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF UTAH COUNTY)
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2005

	<u>Business-type Activities</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 218,834
Accounts Receivable	
Property Tax Receivable	76,115
Trade Accounts Receivable (Net of allowance)	183,780
Total Current Assets	<u>478,729</u>
Capital Assets:	
Equipment	689,918
Water System	1,275,042
Buildings and Structures	239,915
Land	95,583
Construction in Progress	
Wastewater System	170,338
Accumulated Depreciation	(1,000,498)
Net Capital Assets	<u>1,470,298</u>
Other Assets:	
Cash and Cash Equivalents - Restricted	46,267
Water Stock and Water Rights	427,671
Prepaid Lease	12,088
Total Other Assets	<u>486,026</u>
Total Assets	<u>2,435,053</u>
Liabilities	
Current Liabilities:	
Accounts Payable	15,018
Accrued Interest Payable	8,605
Payroll Liabilities	7,349
Short Term Notes Payable	247,500
Long-Term Debt - Current Portion	48,139
Total Current Liabilities	<u>326,611</u>
Long-Term Debt:	
Bonds and Notes Payable (net of current portion)	<u>240,573</u>
Total Liabilities	<u>567,184</u>
Net Assets	
Invested in Capital Assets (net of related debt)	934,086
Restricted for Debt Service	45,800
Unrestricted	887,983
Total Net Assets	<u>\$ 1,867,869</u>

See accompanying notes to the financial statements

NORTH FORK SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF UTAH COUNTY)
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Business-type Activities</u>
Operating Revenues:	
Charges for Services	\$ 343,512
Charges for Services Pledged as Security for Revenue Bonds	134,268
Total Operating Revenues	<u>477,780</u>
Operating Expenses:	
Salaries & Benefits	187,532
Depreciation and Amortization	96,044
Repairs	48,011
Supplies and Other	59,148
Bad Debt Expense	16,142
Rent	2,000
Central District Operations	137,669
Total Operating Expenses	<u>546,546</u>
Operating Income (Loss)	<u>(68,766)</u>
Non-Operating Revenues (Expenses)	
Property Taxes	152,395
Interest Income	7,240
Fire Grants	9,647
Interest Expense and Fees	(15,556)
Total Non-Operating Revenues (Expenses)	<u>153,726</u>
Net Income (Loss)	84,960
Net Assets - December 31, 2004	<u>1,782,909</u>
Net Assets - December 31, 2005	<u><u>\$ 1,867,869</u></u>

See accompanying notes to the financial statements

NORTH FORK SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF UTAH COUNTY)
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

Cash Flows from Operating Activities:		
Cash Receipts from Customers	\$ 446,824	
Cash Payments to Vendors	(638,177)	
Cash Payments to Employees for Services and Benefits	<u>(187,426)</u>	
Net Cash Provided (Used) by Operating Activities		\$ (378,779)
Cash Flows from Non-Capital and Related Financing Activities:		
Property Taxes Collected		141,795
Cash Flows from Capital and Related Financing Activities:		
Proceeds from Issuance of Debt	282,500	
Principal Paid on Long-Term Debt	(98,166)	
Payments for Fixed Assets	(48,557)	
Interest and Fees Paid on Long-Term Debt	(10,118)	
Other Revenues Collected	<u>9,647</u>	
Net Cash Provided (Used) by Capital and Related Financing Activities		135,306
Cash Flows from Investing Activities:		
Interest Income		<u>7,240</u>
Net Increase (Decrease) in Cash and Cash Equivalents		(94,438)
Cash and Cash Equivalents:		
Cash - December 31, 2004		<u>359,539</u>
Cash - December 31, 2005		<u><u>\$ 265,101</u></u>
Cash and Cash Equivalents Recorded in Balance Sheet:		
Cash and Cash Equivalents - Unrestricted	\$ 218,834	
Cash and Cash Equivalents - Restricted	<u>46,267</u>	
Total Cash and Cash Equivalents		<u><u>\$ 265,101</u></u>

See accompanying notes to the financial statements

NORTH FORK SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF UTAH COUNTY)
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

Reconciliation of Operating Income (Loss) to Net Cash
Provided (Used) by Operating Activities:

Operating Income (Loss)	\$ (68,766)
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Adjustment to Reconcile Operating Income (Loss) to Net Cash
Provided (used) by Operating Activities:

Depreciation	\$ 96,044
(Increase) Decrease in Accounts Receivable	(30,956)
(Increase) Decrease in Prepaid Lease	2,000
(Increase) Decrease in Water Stock	(378,000)
Increase (Decrease) Accounts Payable	793
Increase (Decrease) Payroll Liabilities	<u>106</u>

Total Adjustments	<u>(310,013)</u>
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Net Cash Provided (Used) by Operating Activities	<u><u>\$ (378,779)</u></u>
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See accompanying notes to the financial statements

NORTH FORK SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF UTAH COUNTY)
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

North Fork Special Service District was formed to provide fire protection and culinary water service to residents within District boundaries. The District is located near Sundance Ski Resort in Provo Canyon, Utah. All services provided by the District and all activities and funds that are financially accountable to the District under GASB Statement 14 are included in these financial statements. North Fork Special Service District is a component unit of Utah County, Utah.

North Fork Special Service District maintains its books and financial statements in conformity with accounting principles generally accepted in the United States of America as applicable to governmental units.

Government-Wide Financial Statements

The government-wide financial statements consist of the statement of net assets, the statement of revenues, expenses and changes in net assets and the statement of cash flows. The District is considered a special-purpose government engaged only in business-type activities. It is classified as a proprietary fund type and operates as an enterprise fund. Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The District's Water System, Fire Protection, Ambulance Service and Sewer Funds are operated as an enterprise fund. The financial statements of the District consist of only an enterprise fund and neither fiduciary funds nor component units that are fiduciary in nature are included.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting related to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Therefore, revenues are recognized in the accounting period in which they are earned and become measurable and expenses are recognized in the period incurred, if measurable.

Proprietary funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

NORTH FORK SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF UTAH COUNTY)
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005

NOTE 1 - SUMMARY (Continued)

Cash and Cash Equivalents

The District considers investments in highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Capital Assets

Capital assets are defined by the District, as an asset with an estimated useful life in excess of one year. Improvements are capitalized. However, the cost of normal maintenance and repairs that do not add to the value of the assets or materially extend the asset's life are not. Management has determined assets with an original cost of more than \$1,000 considered to be capital assets. All capital assets are recorded at cost and are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Equipment	5-15
Water System	5-50
Buildings & Structures	7-40

No depreciation is taken on construction in progress until the asset is placed in service.

Revenues and Expenses

The District distinguishes operating revenues and expenses separately from non-operating. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Property Taxes

Property taxes are assessed as of January 1st and become a lien upon the property as of that date. Real property taxes are due by November 30th and personal property taxes are due on a staggered basis throughout the year.

Use of Estimates

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, and expenses during the reporting period. Actual results could differ from those estimates.

NORTH FORK SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF UTAH COUNTY)
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005

NOTE 1 - SUMMARY (*Continued*)

Water Stock and Water Rights

The District owns water shares and water rights in connection with the water system. The stock and rights are carried at historical cost.

Net Assets

The District's net assets are classified as follows:

Invested in capital assets, net of related debt – consists of the District's total investment in capital assets, net of accumulated depreciation, reduced by the outstanding debt obligations related to those assets.

Restricted for debt service – consists of that portion of net assets that is restricted by debt covenants for debt service.

Unrestricted – consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits and investments for local government are governed by the Utah Money Management Act (*Utah code annotated, Title 51, Chapter 7, "the Act."*) and by rules of the Utah Money Management Council ("the Council"). Following are discussions of the local government's exposure to various risks related to its cash management.

A. Custodial Credit Risk

Deposits. Custodial credit risk for deposits is the risk that in the event of a bank failure, the North Fork Special Services District's deposits may not be recovered. The District's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of the District to be in a qualified depository, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council. As of December 31, 2005, none of the District's bank balances were uninsured and uncollateralized.

NORTH FORK SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF UTAH COUNTY)
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005

NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)

Investments. Custodial credit risk for investments is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments that are in the possession of an outside party. The District does not have a formal policy for custodial credit risk of investments. The entire \$46,267 of the District's investments in money markets are uninsured, unregistered, and held by the counterpart's trust department but not in the District's name and are therefore exposed to custodial credit risk.

B. Credit Risk

Credit risk is the risk that the counterparty to an investment will not fulfill its obligations. The District's policy for limiting the credit risk of investments is to comply with the Money Management Act. The act requires investment transactions to be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities. Permitted investments include deposits of qualified depositories; repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations one of which must be Moody's Investment Services or Standard & Poors; bankers acceptances; obligations of the U.S. Treasury and U.S. government sponsored enterprises; bonds and notes of political subdivisions of the State of Utah; fixed rate corporate obligations and variable rate securities rate "A" or higher by two nationally recognized statistical rating organizations as defined in the Act.

The District is authorized to invest in the Utah Public Treasurer's Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer and subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on amortized cost bases. The income, gains, and losses net of administration fees, of the PTIF are allocated based upon the participants' average daily balances.

The following are the District's investments at December 31, 2005

Investments	Investment Maturities (in Years)				Rating
	Less Than 1	1-5	6-10	10	
Collateralized Money Market	\$ 46,267	\$ -	\$ -	\$ -	Unrated
Utah Public Treasurer's Investment Fund	212,433				Unrated
Total Investments	<u>\$ 258,700</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

NORTH FORK SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF UTAH COUNTY)
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005

NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)

C. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The District manages its discourse to declines in fair value by investment mainly in the PTIF and by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the finds to be invested. Maturities of the District's investments are noted above.

D. Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District's policy is to adhere to the rule of the Money Management Council. The District does not have concentrations of credit risk.

Restricted Cash – Consists of monies held for bond reserves, bond sinking funds, and monies held in trust. Management has determined to first use restricted assets, then unrestricted assets when applicable expense is incurred.

NOTE 3 - RECEIVABLES

Receivables on the financial statements are presented net of allowance for doubtful accounts of \$9,016. The allowance was determined on past history of uncollectible accounts. Receivable balances over 90 days are considered delinquent and the District's policy is to write off uncollectible accounts on a case-by-case basis.

Gross Receivables from Customers	\$192,796
Allowance for Doubtful Accounts	(9,016)
Net Receivables	<u>\$183,780</u>

NOTE 4 – PREPAID EXPENSES

The District entered into a \$22,000, 11-year operating lease for the use of a fire truck bay on March 1, 2001, of which \$11,000 was prepaid at its inception. In January 2002, the remaining \$11,000 was prepaid. This will be amortized over the life of the lease at \$2,000 a year.

NORTH FORK SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF UTAH COUNTY)
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005

NOTE 4 - CAPITAL ASSETS

	June 30, 2004	Increase	Decrease	June 30, 2005
Capital Assets Not Being Depreciated:				
Construction in Progress				
Waste Water System	\$ 145,300	\$ 25,038	\$ -	\$ 170,338
Land Easements	95,583	-	-	95,583
Total Capital Assets Not Being Depreciated	240,883	25,038	-	265,921
Capital Assets Being Depreciated:				
Equipment	677,274	12,644	-	689,918
Water System	1,264,167	10,875	-	1,275,042
Buildings and Structures	239,915			239,915
Total Capital Assets Being Depreciated	2,181,356	23,519	-	2,204,875
Less Accumulated Depreciation:				
Equipment	432,542	56,889	-	489,431
Water System	381,117	31,736		412,853
Buildings and Structures	90,795	7,419		98,214
Total Accumulated Depreciation	904,454	96,044	-	1,000,498
Total Net Capital Assets Being Depreciated	1,276,902	(72,525)	-	1,204,377
Total Net Capital Assets	<u>\$ 1,517,785</u>	<u>\$ (47,487)</u>	<u>\$ -</u>	<u>\$ 1,470,298</u>

NORTH FORK SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF UTAH COUNTY)
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005

NOTE 5 – SHORT-TERM DEBT OBLIGATIONS

During 2005 the District received short term note financing of \$35,000 from a related party. The financing was used for operations of the district. The funds were repaid and as of December 31, 2005 there was no outstanding balance.

The 2005 Long-Term Note Advance from the state of Utah was an advance of a long-term note for the construction of a Waste Water System. For the District to receive the funding, certain preliminary steps had to be completed. The State advanced monies to complete these steps. The funds will be repaid at the closing of the long-term note during 2006.

	<u>December 31, 2004</u>	<u>Issuances</u>	<u>Retirements</u>	<u>December 31, 2005</u>	<u>Due in one year</u>
Notes:					
Personal Loan from Related Party, 8.6 % interest Payable in 30 days of issuance	\$ -	\$ 35,000	\$ 35,000	\$ -	\$ -
2005 State of Utah Short-Term Note Advance, No interest, to be repaid repaid at closing of short-term note	-	247,500	-	247,500	247,500
Total Short-Term Debt	<u>\$ -</u>	<u>\$282,500</u>	<u>\$ 35,000</u>	<u>\$247,500</u>	<u>\$247,500</u>

NOTE 6 – LONG-TERM DEBT

The following is a summary of the changes in long-term debt for the year ended December 31, 2005:

	<u>December 31, 2004</u>	<u>Issuances</u>	<u>Retirements</u>	<u>December 31, 2005</u>	<u>Due in one year</u>
Bonds:					
1996 Water Revenue Bonds, 5.5% to 6.2%, Payments due Oct. 1, and April 1 through 2009	\$206,000	\$ -	\$ 41,000	\$165,000	\$ 43,000

NORTH FORK SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF UTAH COUNTY)
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005

NOTE 6 – LONG-TERM DEBT (Continued)

	<u>December</u> <u>31, 2004</u>	<u>Issuances</u>	<u>Retirements</u>	<u>December</u> <u>31, 2005</u>	<u>Due in</u> <u>one year</u>
Notes:					
1998 Fire Truck Note Payable 4.65%, Payments due January 1 and July 1 through 2005	22,166	-	22,166	-	-
1981 GMAC Commercial Mortgage, 5.00%, Payments due January 1 through 2022	<u>123,712</u>	<u>-</u>	<u>-</u>	<u>123,712</u>	<u>5,139</u>
Total Long Term Debt	<u>\$351,878</u>	<u>\$ -</u>	<u>\$ 63,166</u>	<u>\$288,712</u>	<u>\$ 48,139</u>

Total Debt Service requirements of the district are as follows:

<u>Fiscal Years</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 48,139	\$ 15,595	\$ 63,734
2007	52,401	12,634	65,035
2008	54,678	9,531	64,209
2009	31,969	6,266	38,235
2010	6,274	5,186	11,460
2011-2015	36,524	20,776	57,300
2016-2020	46,874	10,426	57,300
2021-2022	11,853	641	12,494
Total	<u>\$288,712</u>	<u>\$ 81,055</u>	<u>\$369,767</u>

NOTE 7 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the District to purchase commercial insurance for these risks or maintains risk at the District level. Various policies are purchased through an insurance agency to cover liability, theft, damages, and other losses. A minimal deductible applies to these policies which the District pays in the event of any loss. The District also has purchased a workers' compensation policy. Insurance settlements have not exceeded insurance coverage during the last three years.

NORTH FORK SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF UTAH COUNTY)
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005

NOTE 8 - LITIGATION

The District is involved in legal proceedings arising out of normal operations. The outcome of these proceedings is pending and not known at this time.

NOTE 9 - RETIREMENT PLANS

Local Government - Cost Sharing

Plan Description. North Fork Special Service District contributes to the Local Governmental Contributory Retirement System for employers with Social Security coverage, cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). Utah Retirement Systems provides refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Contributory Retirement System. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Funding Policy. In the Local Governmental Non-contributory Retirement System, North Fork Special Service District is required to contribute 11.09% of their covered salary from January 1 through December 31, 2005. The contribution rates are the actuarially determined rates and are approved by the Board as authorized by Chapter 49. The contribution requirements of the Systems are authorized by statute and specified by the Board.

North Fork Special Service District contributions to the Local Governmental Non-contributory Retirement System for the years ending December 31, 2005, 2004, and 2003 were \$5,025, \$4,692, and \$4,100 respectively. For the 401(k) plan, the contributions for December 31, 2005, 2004 and 2003 were \$150, \$1,000, and \$1,200 respectively. The contributions were equal to the required contributions for each year.

NORTH FORK SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF UTAH COUNTY)
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005

NOTE 10 - RELATED PARTY TRANSACTIONS

During 2005 the District received short term note financing of \$35,000 from a related party (see Note 5).

NOTE 11 – EXPENDITURES IN EXCESS OF APPROPRIATIONS

For the year ended December 31, 2005, the entity had expenditures which exceeded appropriations by \$11,502.

GILBERT & STEWART
CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION

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**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Administrative Control Board
North Fork Special Service District
Sundance, Provo, UT 84604

May 30, 2006

We have audited the financial statements of the business-type activities of North Fork Special Service District - a component unit of Utah County, as of and for the year ended December 31, 2005, which collectively comprise the North Fork Special Service District's basic financial statements and have issued our report thereon dated May 30, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered North Fork Special Service District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the North Fork Special Service District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not the objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to management of North Fork Special Service District, in a separate letter dated May 30, 2006.

This report is intended solely for the information and use of the management, Utah State Auditor and the cognizant audit agency and is not intended to be and should not be used by anyone other than these specified parties.

GILBERT & STEWART
Certified Public Accountants

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**INDEPENDENT AUDITOR'S REPORT
ON LEGAL COMPLIANCE WITH
APPLICABLE UTAH STATE LAWS AND REGULATIONS**

Administrative Control Board
North Fork Special Service District
Sundance, Provo, UT 84604

May 30, 2006

We have audited the accompanying financial statements of the business-type activities of the North Fork Special Service District, a component unit of Utah County, for the year ended December 31, 2005, and have issued our report thereon dated May 30, 2006. Our audit included test work on the District's compliance with the following general compliance requirements identified in the State of Utah Legal Compliance Audit Guide:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance

Trust in Taxation & Property Tax Limitations
Special Districts
Other General Compliance Issues

The District did not receive any major State grants during the year ended December 31, 2005.

The management of the North Fork Special Service District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying management letter. We considered these instances of noncompliance in forming our opinion on compliance which is expressed in the following paragraph.

In our opinion, North Fork Special Service District complied, in all material respects, with the general compliance requirements identified above for the year ended December 31, 2005.

This report is intended solely for the information of management and the Utah State Auditor, and is not intended to be and should not be used by anyone other than these specified parties.

GILBERT & STEWART
Certified Public Accountants

NORTH FORK SPECIAL SERVICE DISTRICT

MANAGEMENT LETTER

DECEMBER 31, 2005

GILBERT & STEWART

CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION

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May 30, 2006

Administrative Control Board
North Fork Special Service District
Sundance, UT

We have audited the financial statements of North Fork Special Service District, a component unit of Utah County, as of and for the year ended December 31, 2005 and have issued our report thereon dated May 30, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of North Fork Special Service District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of North Fork Special Service District's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise

management about the appropriateness of accounting policies and their application. The significant accounting policies used by North Fork Special Service District are described in Note 1 to the financial statements. No new accounting policies or procedures were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by North Fork Special Service District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Significant Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the North Fork Special Service District's financial reporting process. In our judgment, none of the adjustments we proposed whether recorded or unrecorded by the District, either individually or in the aggregate, indicate matters that could have a significant effect on the Town's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principal to the government unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Other Matters for Consideration

Utah State Compliance Findings – Current Year

05-1 General Compliance - Budgetary Compliance

Finding: Utah State law prohibits governmental entities from incurring expenditures in excess of appropriations. During the year we noted expenditures exceeded appropriations by \$11,502

Recommendation: We recommend that the District monitor budgets and make necessary adjustments to be in compliance with State law.

District's Response: We concur with the auditors recommendation and will make the necessary adjustments.

Utah State Compliance Findings – Prior Year

04-1 General Compliance – Cash Management

Finding: All public funds shall be deposited daily, whenever practicable, but not later than three business days after receipt. (*Utah Code 51-4-2(2)*). We noted that some deposits were not always deposited in accordance with the three days after receipt rule, as mentioned above.

Current Status: The District is in compliance with State law.

Other Recommendations

1. Capital Assets

Recommendation:

We recommend that an inventory of capital assets be performed and compared to the depreciation schedule to determine assets no longer in existence or owned by the District and that they be removed from the depreciation schedule.

Managements Response:

We will work towards inventorying capital assets to determined assets still in use and in existence.

2. Ambulance Fees

Recommendation:

We recommend that the District obtain more timely and sufficient reporting of the ambulance fees, to ensure proper billing and collections.

Managements Response:

We concur with the Auditors recommendations.

This information is intended solely for the use of The North Fork Special Service District and the management of the North Fork Special Service District, and is not intended and should not be used by anyone other than these specified parties.

Very truly yours,

GILBERT & STEWART
Certified Public Accountants